



The President's Daily Brief

January 30, 1975

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FOR THE PRESIDENT ONLY

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SAUDI ARABIA

The Saudis may substantially increase their investment in US private equities, US government securities, and--to a lesser extent--real estate this year.

Major Saudi investment plans include:

--Purchase, barring adverse US reaction, of up to \$1 billion in US equities this year. The limit will be 5-7 percent of the shares of any single company.

--Purchase of between \$1.5-\$2.5 billion of US Treasury bills through the Federal Reserve Bank of New York in the first quarter of this year. Additional purchases are expected in the spring.

Saudi investment institutions will be modified to facilitate the shift. An investment advisory board composed of US and European financial experts will assist the Saudi Arabian Monetary Agency in evaluating equity and government security purchases. This monetary agency is to have representation in London and possibly in New York. A real estate advisory board is also planned.

In the past, the Saudis have been very conservative in the placement of their surplus oil revenues. At the end of 1974, over four fifths of Saudi Arabia's minimum total of \$18.7 billion in foreign holdings were held in bank deposits and other liquid assets. About 80 percent of Saudi foreign assets were dollar-denominated.

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EGYPT-FRANCE

President Sadat left Paris yesterday with the promise of sizable French arms sales. The French will also consider a wide range of economic projects in Egypt.

Sadat announced at a press conference in Paris that Egypt would be buying Mirage F-1 aircraft. Unnamed French sources have told the press that 50 planes are involved.

Egypt is already taking delivery of other Mirage aircraft, thought to be Mirage 5s, under agreements concluded by Saudi Arabia, Kuwait, and Abu Dhabi on Egypt's behalf. As many as 72 aircraft may eventually be delivered; by February, nine of these planes may be in Egypt.

While in Paris, Sadat made a much-publicized tour of Thomson-CSF, the producer of Crotale surface-to-air missiles and electronic equipment. War production minister General Badri is remaining in France for further discussion with Thomson officials.

A pointed reference in the communiqué issued at the end of the visit--France's agreement to sell Egypt arms as partial compensation for war losses--probably was included at Sadat's request. Sadat has made much in recent public statements of Moscow's failure to provide Egypt with replacement equipment. His activity in Paris is yet another reminder that he can go elsewhere to obtain at least some of Egypt's military needs.

Sadat took care during his press conference to avoid giving the impression that new arms will impede the progress of talks with Israel. He repeatedly emphasized that delivery of the Mirages will take several years. He also reiterated his position that Egypt and Syria have no intention of starting a new war.

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Few firm agreements appear to have been made for French economic cooperation, although Sadat and French President Giscard held extensive economic discussions. Agreement was reached on construction of a conventional electric power plant and on a system for color television.

The communiqué's call for "guaranteed borders" adds a refinement to the language of UN Resolution 242, which calls only for "secure and recognized borders," reflecting France's desire to take part in settlement efforts.

Sadat said he would welcome French troops to guarantee the border in a final peace settlement, if they were positioned on both sides. He firmly discounted rumors that he would ask for French involvement in current negotiations, but did say that "in a coming stage" France and all of Western Europe should play a role.

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PORUGAL

The Communist Party and some other leftist groups have called off the demonstration they had scheduled in Lisbon Friday. If the Socialists cancel their demonstration as well, the chances of violence this weekend will be reduced.

The Communists' cancellation came in response to an announcement by the Armed Forces Movement that demonstrations should not take place. The Communists, whose demonstration had been planned to draw off support from the Socialist rally that they expected to be a big success, were no doubt gratified by the government's announcement. The announcement indicates that the Armed Forces Movement can still act as a body, even though seriously divided between moderates and radicals.

The government's concern over the rival demonstrations increased yesterday when a Maoist party announced it planned to meet at the same location as the Socialists. The Socialists, at the time determined to make their show of strength in spite of competition, changed locations to avoid conflict. The announced times and places of the three demonstrations, however, were so close that planned or spontaneous clashes were still possible.

Before the announcement by the Armed Forces Movement, the Socialist leader, Foreign Minister Soares, told Ambassador Carlucci that his party would go ahead with its demonstration, even if the government canceled it. The Socialists, nevertheless, may now back down.

The Maoist group may not be as willing to follow suit. Press reports indicate that the party is prepared to hold its demonstration in defiance of a government ban.

If the Maoists do not have the Socialists to demonstrate against, they may substitute a new cause--the ten-day NATO antisubmarine exercise that began yesterday in international waters near Lisbon. The Maoists have been joined in condemning these operations by the Popular Socialist Front, a radical Catholic group that recently split from the Socialist Party.

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GREECE-NATO

The Greek government apparently is not yet ready to discuss in detail the consequences of its decision to withdraw from NATO's integrated military command.

Athens had informed NATO on December 4 that it was prepared then to discuss questions raised by its decision to withdraw. In a conversation on January 28 with our ambassador in Athens, however, a high Foreign Ministry official noted his desire not to cause unnecessary problems for NATO activities in Greece. In particular, Athens wants to ensure the continued operation of the NATO missile firing installation on Crete. The official explained that his government was still in the process of determining its relationship with NATO and would, therefore, prefer not to take a position on the fate of specific NATO facilities in Greece at this time.

The Greek military establishment seems to favor the maintenance of as many ties to NATO as politically possible. While Prime Minister Karamanlis probably sympathizes with this position, he is also mindful of the popularity of last summer's decision to withdraw from NATO's integrated military command.

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CHINA

The appointment of two high-ranking officials--Teng Hsiao-ping and Chang Chun-chiao--as army chief of staff and head of the army's political department respectively, strengthens party control over the armed forces. Both Teng and Chang are civilian members of the Politburo standing committee.

Teng Hsiao-ping is the ranking vice premier and has been filling in for Premier Chou En-lai since the Premier entered the hospital last year. Teng had a distinguished military career during the civil war, but has been a party and government administrator since then.

Chang Chun-chiao, the new head of the army's General Political Department, is also a vice premier. He rose to the top party post in Shanghai as a result of the Cultural Revolution, but appears to have been working fairly closely with moderate elements in the leadership for the past several years.

[redacted] he has moved toward the political center. Chang does not have an extensive military background and is reported to have clashed on a number of occasions with powerful professional military figures.

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Defense Minister Yeh Chien-ying, a senior party vice chairman, outranks Teng and Chang within the party hierarchy. In the government, however, they outrank him since they are both vice premiers and he is not. Party ranking is, of course, more important, and the bureaucratic demotion of the defense portfolio appears to be a downgrading of the military establishment rather than of Yeh Chien-ying himself.

Teng's appointment apparently reflects the wishes of Chairman Mao Tse-tung. Mao reportedly told a Politburo meeting in December 1973 that Teng would make "an excellent chief of staff." There was almost certainly opposition from the political left to Teng's appointment; he had been purged during the Cultural Revolution.

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Although Teng will probably enlarge his role in military policy making, it is not yet clear whether he will handle day-to-day military affairs. His broad government duties would seem to demand much of his time unless Premier Chou's health permits Chou to resume a more active role in government affairs. Teng may rely heavily on his eight deputy chiefs of staff, several of whom possess the necessary experience to fill the job themselves.

Chang Chun-chiao will oversee the implementation of party policy in the armed forces. This job is congruent with that of party secretary-general, which Chang also seems to have been filling.

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WESTERN HEMISPHERE

Some hemispheric countries are beginning to press local subsidiaries of US companies to do business with Cuba. This pressure has become stronger since the US authorized sales to Havana by US auto subsidiaries in Argentina.

Mexico is in the forefront of this activity, but Canada and Colombia also could play a significant role.

Subsidiaries of US automotive manufacturers were told flatly last week by the Mexican government that they must obtain whatever permission is necessary so that they can export to Cuba. The Institute of Foreign Trade also asked all firms with an exporting capability to participate in Mexico's March trade fair in Cuba.

Failure to respond to these requests undoubtedly will jeopardize the Mexican operations of those US companies which work under a system that links production and component import quotas partly to export performance. If the trade requests are not favorably received in Washington, the Mexican reaction most likely would be orchestrated criticism. Furthermore, although there have been no threats of such action, Mexico has legislation that could be invoked to nationalize the US subsidiaries if they refuse to sell to Cuba.

Canada, prompted by a US firm's recent cancellation of a contract between its Canadian subsidiary and Cuba, is in the process of passing legislation guaranteeing Canadian control over multinational corporations operating there.

Colombia recently has joined the growing list of hemispheric countries doing business with Havana. The government has stated that subsidiaries of multinational corporations will be "allowed" to participate in this trade.

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NOTES

Iraq and the USSR reportedly concluded a major arms agreement late last year.

The new arms package, which appears to have grown out of Soviet Chief of Staff Kulikov's trip to Iraq last November, is the latest sign that Moscow and Baghdad have set aside their differences, at least for now. The USSR is to provide Iraq with additional Scud surface-to-surface missiles, a MIG-23 squadron, two MIG-17 squadrons, and some MI-8 helicopters.

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Ecuador's plan to buy \$91 million in arms from France will, when executed, be the largest single purchase of ground force equipment by any Latin American country.

A letter of intent signed last month provides for the purchase of 72 AMX-13 tanks, 12 armored personnel carriers, at least 68 other armored support vehicles, and 12 155-mm. self-propelled howitzers; \$26 million in ammunition is included. An Ecuadorean army delegation is looking over other West European artillery and surface-to-air missiles and is to go to Israel in February to examine towed howitzers made there.

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